No. 86-480

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

October Term, 1986

DARBY DENTAL SUPPLY COMPANY, INC., DENTAL WHOLESALERS, INC. and SPENCER MEADE DENTAL, INC.,

Petitioners,

v.

PREMIER DENTAL PRODUCTS COMPANY,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Third Circuit

REPLY BRIEF OF PETITIONERS

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POINT I

Respondent Fails To Confront The Principal Question Presented By This Case.

Respondent fails to confront the principal question presented by this case—whether a United States distributor of foreign goods can claim to "own" the United States

trademark, placed on the goods by the foreign manufacturer, so as to exclude genuine foreign goods of the same manufacturer imported by others, when the trademark and the quality of the goods are controlled by the foreign manufacturer.

It begs the question for the Respondent to say that it acquired the trademark by written assignment and that the assignment was held valid by the Court below.* We ask this Court to decide that the assignment was ineffective to transfer ownership to the Respondent for Section 526 purposes. Issues of fact are not involved because the terms of the assignment are undisputed. The legal effect of the assignment is at issue.

Section 526 of the Tariff Act (19 U.S.C. 1526), the statute under which Respondent obtained an injunction prohibiting Petitioners from importing Impregum, requires that the party seeking relief *own* the trademark. (40a) The written assignment under which Respondent claims ownership purports to transfer legal title and goodwill to Respondent; but the assignment expressly reserves for the assignor, ESPE, every aspect of trademark ownership —i.e., control of the use of the mark and control of the goods on which it is used (including control of the quality of the goods).** No business was transferred. No money was paid. Legal title to the trademark must be reconveyed on ESPE's demand. No control of the product or the trademark was transferred. No goodwill was actually transferred—despite the statement in the assignment—be-

* All cases are decided against all Petitioners in the Court below.

** The assignment is set out at pp. 4-7 of the Petition.

cause goodwill adheres to a product and nothing about the product or its distribution was in the least disturbed from the state of affairs that existed before the assignment. The law cannot permit a statute to be subverted and misused by this transparent scheme.

A trademark's "function is simply to designate the goods as the product of a particular trader and to protect his goodwill against the sale of another's product as his. . . ." *United Drug Co.* v. *Rectanus Co.*, 248 U.S. 90, 97; 39 S.Ct. 48, 50; 63 L.Ed. 141, 145 (1918) (Pet. p. 12). From the time ESPE began selling Impregum in the United States (the trademark was registered by ESPE in 1968) the trademark designated the goods as the product of ESPE. Respondent became the exclusive distributor of ESPE Impregum in the United States in 1974. Therefore, from 1974 to June 20, 1984 (the date of the trademark assignment) Respondent distributed a product with a trademark that designated the goods as the product of ESPE. The 1984 assignment changed nothing of substance—it merely created the fiction that Respondent became the "owner" of the mark which designated ESPE as the source of Impregum.

While the trademark assignment to Respondent might be valid for other purposes (e.g., stopping use of the mark on counterfeit products) it should not be effective to allow Respondent to invoke Section 526. That statute was enacted to protect American companies which purchased real economic interests in the mark along with the business that used the mark—not foreign manufacturers seeking to inhibit competition with their designated distributor.

The practical question presented by this case is whether parallel importing of genuine foreign goods will be permitted to continue. There are two ways that a foreign manufacturer can deal with its United States trademark on goods being imported into the United States. It can retain ownership of the United States trademark under which its goods are sold in this country, or it can transfer the trademark to a United States distributor. If the foreign manufacturer retains the trademark (and sells goods here itself or through a distributor) there is no doubt that other importers can buy the manufacturer's products abroad, import them and sell them in competition with the manufacturer. No Section 526 violation occurs because the owner of the trademark is not a United States citizen. No Lanham Act violation occurs because the United States trademark owner sold the very goods being imported and along with that sale went the right to resell the goods with the trademark affixed by the manufacturer, *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 44 S.Ct. 350, 68 L.Ed. 731 (1924).

If the foreign manufacturer transfers the trademark to a United States citizen or corporation, three possible scenarios arise:

a) If the sale is of the trademark and the business associated with the trademark, to an independent American purchaser (the *Bourjois* situation, 260 U.S. 689, 43 S.Ct. 244, 67 L.Ed. 464 [1923]) the United States trademark owner has the right to invoke Section 526. The statute was enacted to protect the American trademark purchaser in just that situation.

b) If the United States trademark owner is corporately controlled by the foreign manufacturer (the *COPIAT, Vivitar, Olympus* situation), confusion reins as to the applicability of Section 526. The Second Circuit and the Federal Circuit held that questions of corporate control can relieve the Customs Service of the duty to enforce Section 526 while the District of Columbia Circuit held that the Custom Service's duty to enforce the section is absolute.*

c) The third scenario is presented by the case at bar where the foreign manufacturer assigns the trademark to a corporately independent American company, but retains control of the product and the use of the trademark directly through an agreement rather than indirectly through corporate ownership. The Third Circuit has held that Section 526 can be invoked despite the fiction of trademark ownership without control.

If this Court grants certiorari in the COPIAT case, it should also grant the instant petition. The policy question is the same—whether a United States trademark controlled by the foreign company should be used to exclude the same foreign products imported by other distributors. Whether the control is manifested through corporate ownership, the issue in the COPIAT case, or by express written agreement, the issue in this case, should make no difference.

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* The only rational basis for confirming the validity of the Customs Regulations, as the Courts did in COPIAT and Olympus, is that the regulations administratively define the ownership requirement of Section 526 (where the parties are corporately related). As the dissent in Olympus demonstrated, there is no logical basis for the regulations if the ownership language of the statute is interpreted as unqualified and absolute.

We ask this Court to review the decision of the Third Circuit Court of Appeals which sanctioned the stated purpose of ESPE's assignment, which was to create ownership rights in Premier solely to enable Premier to invoke Section 526 to prohibit Petitioners and other distributors from importing genuine foreign goods.

Businesmen must know whether they can or cannot import genuine foreign goods in competition with a foreign manufacturer's designated distributor. Answering that question in the COPIAT context does little to clarify the situation for importers and distributors of foreign goods, if foreign manufacturers can then simply use the ESPE/Premier assignment format to circumvent the ownership requirement imposed by Section 526.

Conclusion

Section 526 was fashioned by a United States Congress to accomplish a specific goal—to protect United States citizens who own a United States trademark from foreign manufacturers who control the same trademark outside of the United States. If the Third Circuit is not reversed, then ESPE and Premier will have turned Section 526 from a shield to protect United States citizens as contemplated by Congress into a sword enabling foreign manufacturers to prevent competition from parallel imports and to maintain artificially high prices in the United States for their products at the expense of United States citizens.

The decision of the Court of Appeals for the Third Circuit should be reviewed.

Dated: New York, New York
October 30, 1986

Respectfully submitted,

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